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# ACCELERATED MICROENTERPRISE ADVANCEMENT PROJECT (AMAP) FINANCIAL SERVICES ANNUAL WORK PLAN 2005

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Accelerated Microenterprise Advancement Project (AMAP) Financial Services Annual Work Plan 2005  
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## **CHEMONICS CONSORTIUM 2005-2006 ANNUAL WORKPLAN**

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### **A. Contributing to AMAP Program Objectives**

The objectives of the Accelerated Microenterprise Advancement Project and the Chemonics Consortium are to:

- Expand the delivery of financial services to microentrepreneurs and low-income households;
- Increase the capacity of financial providers to serve microenterprises;
- Expand the dissemination of best practices in USAID-sponsored programs in the microfinance field; and to
- Promote the development and adoption of policy, laws and regulation that encourage the start-up, stabilization, and competitiveness of microenterprises and the institutions and markets that serve them.

During the period October 1, 2005 through September 30, 2006 (Year 4 of the AMAP IQC) the Chemonics Consortium will be working towards these objectives through field work and research under task orders in Malawi and Washington DC. In the following sections we present the goals and objectives of the task orders that have planned activities during the year; highlights of task order activities and annual work plans; and finally the program and knowledge management plan that will support these activities and disseminate the best practices and lessons learned in the field and in our research broadly throughout the microfinance industry.

### **B. Mission and Operating Unit Buy-ins**

#### **B1. AMAP Financial Services Knowledge Generation**

Under this task order, the Chemonics Consortium generates knowledge that helps move the microfinance field forward in its efforts to extend efficient, sustainable, and quality financial services to the poor. The knowledge generated under this task order helps increase the capacity of the Economic Growth, Agriculture, and Trade Bureau/Office of Microenterprise Development (EGAT/MD) and its partner USAID Missions to implement as well as monitor the impact of USAID-supported microfinance projects.

Under the Financial Services Knowledge Generation activity, Chemonics has been conducting research and creating tools for donors and microfinance practitioners under six major themes:

- Institutional Models and Non-Institutional Models for Outreach;
- Market Research and New Product Development;
- Rural/Agricultural Finance for Small Producers of Value Chains;
- Improving Microfinance Management;
- Gaining Access to Capital; and
- Enabling Environment for Microfinance and the Market Infrastructure.

Knowledge generation activities under this task order fall into three components: Knowledge Generation; Training and Technical Assistance; and Knowledge Management and Collaboration.

### **B1a. Knowledge Generation Activities Planned for 2005-2006**

In the upcoming year, Chemonics' Knowledge Generation research will focus on five main topics.

*Microfinance in Conflict-Affected Areas.* Research under this topic will continue to examine the provision of microfinance services amid conflict and post-disaster, including microfinance products for at-risk youth in conflict-affected areas and post-Tsunami microfinance and enterprise assessments. Research has addressed:

- Minimum environmental conditions for initiating and continuing microfinance for conflict-affected populations;
- Ways to identify communities affected by conflict to design appropriate interventions;
- The types of institutions that are most effective in the provision of microfinance;
- Strategies to mitigate the negative effects of conflict on portfolios; and
- The types and sequencing of financial products to effectively serve conflict-affected populations.

Phase II of the research on Microfinance, Youth and Conflict is concluding and is scheduled to end in December 2005. Chemonics expects to finalize and publish the following deliverables in the upcoming year:

- Case studies on youth and microfinance in Uganda and the West Bank;
- A microREPORT documenting the research methodology and integrating additional comments shared during a practitioners workshop held in July 2005; and
- A microREPORT describing findings of electronic surveys of MFIs and youth organizations worldwide.

In addition, a final report on microfinance, youth and conflict will be published in early 2006. This report will draw upon the case studies, e-survey findings, and workshop discussions.

*Expanding Access to Rural and Agricultural Finance (RAF).* In year 3 of the task order, Chemonics' team will continue to work closely with the MD office, as well as Lena Heron of USAID's Agricultural Office, on research under this topic. Chemonics' activities for the 2005-2006 period include finalization of two case studies on rural and agricultural finance in Moldova and Russia, the production of at least two additional case studies, several additional technical notes, and the production of a RAF market assessment guide. The case studies will focus on innovations in RAF and will involve one to two field visits to practitioners in Asian countries.

The RAF Market Assessment Guide will directly address the needs of Missions and other development agencies by providing a tool to evaluate market demand for rural and agricultural finance. The tool will draw upon different methodological approaches such as value chain analysis and financial systems analysis. The tool will assist decision makers in evaluating market conditions and constraints, as well as RAF demand and supply in order to inform RAF programming decisions. The Market Assessment Guide will assist Missions to examine a variety of actors, policies and environmental conditions and will be complemented by a Decision Making Guide to be produced by DAI under the RAF research topic.

Several technical notes, called RAFInotes, are planned for 2006. A RAFInote on *Institutional Infrastructure* for rural and agricultural finance, including information on credit bureaus, institutions to improve transparency, and access to capital and local BDS providers will be produced. In addition, a RAFInote on *Managing Commodity Price Risk*, which provides an overview of use of forward contracts and options, among other financial and non-financial instruments will also be produced. Also, at least two RAFInotes highlighting findings from the Moldova and Russia case studies will be produced to share with Missions and other stakeholders including government, donors, and practitioners.

*Transitions to Private Capital.* This research aims to address MFIs' need for greater ongoing access to private capital by investigating the nature of MFI capital structures and needs, the supply and demand for capital, as well as regulatory and market environments.

This year, research under this topic will assess specific opportunities and barriers to private capital among local investors and lenders, within MFIs, and those born of regulatory and market environment conditions. Research will focus on supply and demand of capital, with the primary focus at the level of the investor and MFI. Specifically, the research will investigate funding strategies of MFIs, including deposit mobilization.

A template will be developed for USAID Mission officers to assist them in assessing current and potential sources of funding for MFIs with an emphasis on transitions to private capital. Additionally, the research team will work on developing a financing strategy template for MFIs to allow them to assess funding and capital needs and sources of funding. Deliverables planned for the 2005-2006 period also include two case studies on *Executing Financing Strategy: the Tale of Two MFIs* and *Deposit Led Financing Strategy: the Tale of Four MFIs*. In addition, two papers will be produced on *PVOs as Owners and Stakeholders in the Transition to Private Capital: Roles and Challenges* and *Microfinance Sector Deposit Led Funding Strategy Best Practice*.

Research director, Marc de Sousa-Shields will actively promote the findings of this research topic and the publications through: electronic bulletins highlighting important findings and linked to microLINKS discussions; workshops with PVOs actively working on MFI commercialization; and speaking engagements at international conferences. In

addition, the research team will host an all-day Stakeholder's Workshop in New York to share new findings from this year's research and solicit feedback.

*Legal and Regulatory Self-Assessment Tool.* Research under this topic will provide a set of tools that local stakeholders can use to determine their country's readiness to develop a legal and regulatory framework that supports the sustainable growth of microfinance services. The resulting toolkit will help to determine problem areas, prioritize issues and develop a reform agenda for addressing them. USAID missions may further use the toolkit to identify policy reform issues and to determine the investments that are most appropriate in a given country. The upcoming year will see the finalization and publication of the toolkit, the development of a training module for USAID EGAT Mission staff to aid in the development of enabling environment components, and the production of a model Scope of Work for legal and regulatory assessments.

*Measuring Outreach.* This research will provide MFIs with useful tools and strategies for more effective targeting of very poor clients and enable better assessment of client outreach. The research team plans to continue to refine and conduct field tests on the developed "social audit" tool which allows an MFI or external agency to assess the "social performance" and impact of an MFI on its clients. The tool is not unlike a financial audit tool, but emphasizes social rather than financial performance.

A second field test of the social audit tool will take place in the October 2005 timeframe. Possible field test sites include Peru and the Philippines. The objective of the second field test is to observe the tool's ability to assess the social performance of an MFI that is not based on a strong social mission but has expanded outreach of financial services to low-income populations.

By the end of 2006, the research team will complete a refined social performance measurement (SPM) tool integrating the social audit with the social performance scorecard as well as a written set of guidelines on how to implement and use the SPM tool.

#### **B1b. Training and Technical Assistance Planned for 2005-2006**

The Chemonics' Consortium is well equipped to respond to requests by EGAT/MD for short-term technical assistance under Component 2 of the Knowledge Generation task order. We anticipate technical assistance and training will be needed in the following areas:

- MD and Mission requests for short-term technical assistance, such as trainings, studies, reviews;
- Technical support for conferences, workshops and seminars;
- Short assessments and evaluations; and
- Expansion of certain aspects of core research topics, not originally anticipated in the work plan.

In addition, Chemonics proposes to continue to assist USAID with various microfinance training initiatives.

#### **B1c. Knowledge Management and Collaboration Planned for 2005-2006**

Several knowledge sharing activities are planned to disseminate the results of research under each of the topics. Highlights for this upcoming year include:

- Research director on Microfinance amid Conflict topic, Geetha Nagarajan, will lead the microLINKS Speaker's Corner in September 2005 on Microfinance Post-Natural Disaster.
- Chemonics, QED and DAI will launch the Happy Hour Seminar Series, sponsored by the USAID Microenterprise Development office, which provides technical assistance training, program strategies and designs, and Mission-tailored tools for helping small producers and firms to establish, grow and integrate into markets and value chains.
- Marc de Sousa-Shields, Research Director on Transitions to Private Capital topic will co-present at the first Happy Hour Seminar Series on theme of Transitions to Private Capital.
- Marc de Sousa-Shields, will actively promote the findings of the Transitions to Private Capital research topic and the publications through: electronic bulletins highlighting important findings; a facilitated workshop with PVOs actively working with commercializing MFIs; speaking engagements at international conferences; and a one day workshop in New York to share new findings from this year's research and solicit input from key stakeholders, with an emphasis on attracting potential investors to microfinance.
- Collaboration with DAI to produce a joint CD-Rom and publications list with all KG deliverables.
- Preparation for and involvement in the SEEP 2005 Conference.
- Participation in USAID/MD's Learning Conference in early 2006.
- Communication and collaboration with the AMAP Knowledge Management Contractor, providing monthly updates of project results, as well as notes from the field and other information that could be widely disseminated.

#### **B1d. Publications and Reports to be Developed and Distributed**

Below we present anticipated Financial Services Knowledge Generation deliverables to be published in 2005-2006. For more detail on the planned research activities these deliverables are based on, please see section B1a.

##### *Microfinance, Youth and Conflict*

- Case studies on youth and microfinance in Uganda and the West Bank;
- A microREPORT documenting the research methodology and integrating additional comments shared during a practitioners workshop held in July 2005; and

- A microREPORT describing findings of electronic surveys of MFIs and youth organizations worldwide;
- A final report on microfinance, youth and conflict which highlights case studies, e-survey findings, and workshop discussions.

#### *Expanding Access to Rural and Agricultural Finance*

- RAF Market Assessment and Decision Making Guides for Missions
- RAFInotes on RAF Innovations in Moldova and Russia
- RAFInotes on credit bureaus, improving transparency, access to capital and managing commodity price risk

#### *Transitions to Private Capital*

- Case study on “Strategies for Access to Local Capital: Private Sector Investors and Microfinance;”
- “General Market Environment Considerations for Private Sector Investment in MFIs” case study;
- “MFI Financing Needs and Strategies for Better Access to Local Private Capital” case study;
- Case study on “Executing Financing Strategy: The Tale of Two MFIs;”
- “Deposit Led Financing Strategy: The Tale of Four MFIs” case study;
- Paper on “PVOs as Owners and Stakeholders in the Transition to Private Capital: Roles and Challenges;” and
- “Microfinance Sector Deposit Led Funding Strategy Best Practice” paper.

#### *Legal and Regulatory Self-Assessment Tool*

- Toolkit to assist donors and government to identify sources of information on the legal and regulatory environment, determine problem areas in the legal and regulatory environment for microfinance, prioritize issues and develop a reform agenda for addressing them;
- A training module for USAID Mission EGAT staff to identify and understand the issues surrounding legal and regulatory environments for microfinance and the benefits of using the self-assessment toolkit;
- A model Terms of Reference for USAID Missions to guide the design of projects targeted at the legal and regulatory framework for microfinance.

#### *Measuring Outreach*

- A completed, refined social performance measurement (SPM) tool integrating the social audit with the social performance scorecard.
- A written set of guidelines on how to implement and use the SPM tool.

## **B2. Deepening the Microfinance Sector in Malawi**

The Deepening the Microfinance Sector (DMS) project aims to increase access to finance for micro, small and medium enterprises (MSMEs) through increased capacity in the microfinance sector in Malawi. This task order is the result of a two-month microfinance sector assessment completed by Chemonics in February 2004. Given the structure of



Malawi's economy, it is expected that many of the MSMEs assisted will have linkages to the agricultural sector and will contribute to increased employment and higher rural incomes. The project will also examine the potential for financial products to mitigate the impact of HIV/AIDS on clients, their families, and the MFIs themselves.

## **B2a. Major Activities Planned for 2005-2006**

The detailed workplan for the Malawi DMS project has not yet been finalized, however, a summary of the major planned activities for the upcoming year are presented below, by component. The project faced the challenge of not being fully funded at the level anticipated throughout the first year of implementation (September 30, 2004 - September 29, 2005). However, the project was recently awarded a PRIME Grant in the amount of \$600,000 to provide support to MFI partners.

*Microfinance Industry Capacity Building.* Four high-potential MFIs have formally requested assistance from the project. The DMS project will provide a combination of general "best-practice" training combined with targeted technical assistance and customized trainings to FINCA Malawi, MUSCCO (Malawi Union of Savings and Credit Cooperatives), OIBM (Opportunity International Bank of Malawi) and PRIDE.

*Facilitation of Access to Capital.* The Government of Malawi recently announced the establishment of a \$43 million Malawi Rural Development Loan Fund (MARDEF). It is highly unlikely that it will be fully funded and the fund has been highly politicized throwing into doubt the likelihood that it will be run according to best practices. DMS is playing a key role in eliminating information asymmetries amongst stakeholders by identifying the risk posed by MARDEF and encouraging them to lobby the GoM to avoid potential microfinance market distortions. The project will additionally work to encourage commercial banks and MFIs to extend access to finance to key actors in agricultural value chains such as cotton, coffee, macadamia and food production.

*Improving the Enabling Environment.* In order to support the emergence and performance of MFIs within the larger financial sector, DMS will help Malawi's Microfinance Network (MAMN) to compile and disseminate information on its members, promote transparency in reporting standards, promulgate best practices by stakeholders, and lobby effectively on critical issues confronting Malawi's microfinance sector. DMS can also help MAMN to redraft its constitution and member bylaws that are out-of-date and do not reflect decisions recorded in past meetings' minutes. Additionally, DMS will seek forums to engage the Government of Malawi to build an enabling environment that will include microfinance. A key constraint to the development of the microfinance sector in Malawi is the uncertain and unsupportive legal and regulatory environment for MFIs. Malawi's Cooperative Law has no special provisions for savings and credit cooperatives. DMS will work with the Malawian Government to amend this law, and advocate for changes to Microfinance Policy Statement.

## **B2b. Training, Seminars, and Workshops**

The Ministry of Trade and Industry, together with the Reserve Bank of Malawi, approached the DMS project to co-finance a workshop in which the Microfinance Policy Statement would be shared with stakeholders for their analysis and suggestions for ways in which it might be improved. The project is also considering study tours to Kenya or Uganda to observe the legal and regulatory framework improvements there.

## **B2c. Knowledge Sharing Activities**

Throughout the upcoming year, the DMS project will be closely attuned to the results of the ongoing research under the Knowledge Generation task order as well as USAID microfinance activities in other countries in order to share lessons learned, exploit joint learning opportunities and to apply the lessons and tools developed to the implementation of the DMS project.

## **B2d. Publications and Reports to be Developed and Distributed**

No publications or reports are planned for the upcoming year.

## **C. AMAP FS IQC Knowledge Sharing and Collaboration**

The AMAP FS IQC team regularly shares knowledge on innovations and lessons learned in microfinance through regular communication with projects and consortium members and through active participation in microLINKS as well as Chemonics' internal communities of practice.

Chemonics' internal Rural and Microfinance Practice Network is committed to generating and sharing knowledge to help advance the field of microfinance and microenterprise development. Based on Chemonics' values of excellence and innovation, the Rural and Microfinance Practice Network is designed to bring a deeper technical dimension to our work and help us to make lasting contributions to the field of microfinance. The Network brings Chemonics professionals together across regional, geographic and technical borders to exchange ideas and add value to an ever expanding knowledge base. The Network helps the AMAP team:

- Solve common problems and share ideas
- Capture, share and vet best practices
- Steward knowledge by looking back at what we've accomplished and forward to how we can apply lessons learned better and more effectively
- Work across boundaries to refine and disseminate innovations, both internally and outside Chemonics.

Whenever possible we look to include stakeholders and consortium members in our events as presenters, participants or facilitators.